

Message Text

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ACTION EB-08

INFO OCT-01 AF-10 ARA-10 EA-10 EUR-12 NEA-10 ISO-00

SOE-02 AID-05 CEA-01 CIAE-00 COME-00 DODE-00

DOE-15 H-01 INR-10 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-05 ICA-11 OES-09 SP-02 SS-15 STR-07

TRSE-00 ACDA-12 PA-01 IO-13 /184 W

-----048936 251623Z /46

P R 251409Z JUL 78

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC PRIORITY 1489

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

USINT BAGHDAD POUCH

AMEMBASSY BEIRUT POUCH

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JAKARTA

USMISSION GENEVA

AMEMBASSY JIDDA

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY QUITO

USLO RIYADH

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

C O N F I D E N T I A L SECTION 1 OF 2 KUWAIT 4216

DEPT PASS TREASURY FOR U/SECY SOLOMON

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E.O. 11652: GDS

TAGS: ENRG, OPEC, KU

SUBJECT: OPEC COMMITTEE CHAIRMAN COMMENTS ON OIL PRICE/
CURRENCY BASKET IDEAS

REF: (A) JIDDA 3587, (B) LONDON 11463 (NOTAL), (C) JIDDA

5460 (NOTAL

1. SUMMARY. CHAIRMAN OF OPEC FINANCIAL AND OIL COMMITTEE WHICH RECENTLY MET IN LONDON TO DISCUSS OPEC PRICING POLICY, KUWAIT OIL MINISTER SHAIKH ALI KHALIFA AL-SABAH, TOLD US JULY 25 HE HAS NOT YET MADE UP HIS MIND AS TO WHETHER TYING OIL PRICES TO A CURRENCY BASKET IS A GOOD IDEA. HOWEVER HE FEELS THEORETICAL ARGUMENTS POINT TO SUCH A MOVE STRENGTHENING THE DOLLAR OVER THE LONG TERM RATHER THAN WEAKENING IT. HE AVOIDED COMMENT ON PROSPECTS FOR STRAIGHT PERCENTAGE PRICE HIKE LATER THIS YEAR. END SUMMARY.

2. CHARGE ACCOMPANIED BY ECON CHIEF CALLED ON KUWAIT OIL MINISTER SHAIKH ALI KHALIFA AL-SABAH JULY 25 TO QUERY HIM ON LONDON OPEC COMMITTEE MEETINGS HE CHAIRED AND STATE OF PLAY REGARDING PROPOSALS TO TIE PRICE OF OIL TO SOME SORT OF CURRENCY BASKET. MINISTER HAD FOLLOWING TO SAY.

3. TYING OIL PRICE TO CURRENCY BASKET. EMBOFFS STARTED OFF CONVERSATION NOTING THERE WERE A NUMBER OF CONFUSING AND CONTRADICTORY REPORTS ABOUT THE RESULTS OF THE OPEC COMMITTEE MEETING WHICH HE CHAIRED IN LONDON. ALI KHALIFA LAUGHED AND REPLIED THAT THIS WAS EXCELLENT BECAUSE THE MINISTERS WANTED IT THAT WAY. WHAT DID ALI KHALIFA THINK OF THE JULY 17 PETROLEUM INTELLIGENCE WEEKLY (PIW) REPORT THAT CONFIDENTIAL

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HIS COMMITTEE FAVORED A MODIFIED SDR OR THE CURRENCY BASKET ELEMENT OF THE 1973 "GENEVA 2" MECHANISM? WHAT ABOUT PIW'S CLAIM THAT THE COMMITTEE MIGHT SOON CALL FOR EXTRAORDINARY OPEC MINISTERIAL CONFERENCE TO DECIDE ON AN EFFECTIVE 5 PERCENT PRICE ADJUSTMENT BEGINNING OCTOBER 1? ALI KHALIFA SMILED BROADLY AND SAID THAT HE DIDN'T UNDERSTAND WHERE PIW GOT ITS STORIES, WHICH WERE OFTEN WRONG. (FOR EXAMPLE, HE SAID, PIW HAD REPORTED THAT KUWAIT HAD GIVEN A \$6-\$8 PER TON DISCOUNT TO SHELL IN THEIR RECENTLY SIGNED TEN-YEAR LPG DEAL. BOTH HE AND THE MANAGING DIRECTOR OF SHELL, WHOM HE VISITED WITH IN LONDON, HAD GOTTEN A LAUGH OUT OF THIS.) AS FOR THE CURRENCY BASKET QUESTION, SHAIKH ALI SAID HE HADN'T MADE UP HIS OWN MIND, BUT IT SEEMED TO HIM THAT RELATING OIL PRICES TO A CURRENCY BASKET WOULD BE GOOD FOR THE DOLLAR, NOT BAD FOR IT.

4. MINISTER THEN READ FROM A STATEMENT BY UNDERSECRETARY SOLOMON, FRONT PAGED BY KUWAITI PRESS JULY 25, THAT THE U.S. OPPOSES LINKING THE PRICE OF OIL TO A BASKET OF CURRENCIES BECAUSE OF THE SHORT TERM IMPACT IT WOULD HAVE ON THE DOLLAR, EVEN THOUGH IN THE LONG RUN THE U.S. MIGHT VERY WELL BENEFIT FROM IT. MINISTER AGREED THAT THERE WOULD

BE A SHORT TERM ADVERSE EFFECT ON THE DOLLAR FROM ANY MOVE TO A CURRENCY BASKET BUT CLAIMED THAT THIS WOULD BE BRIEF. "YOU AMERICANS", HE SAID, "FOCUS TOO MUCH ON THE PSYCHOLOGICAL EFFECTS OF A MOVE "AWAY" FROM THE DOLLAR TO A CURRENCY BASKET." IF HE WERE A CURRENCY SPECULATOR, (WHICH, HE EMPHASIZED, KUWAIT WAS NOT) HE WOULD MOVE OUT OF THE DOLLAR IMMEDIATELY PRIOR TO SUCH A DECISION, BUT RIGHT BACK INTO IT 15 DAYS AFTERWARDS, SINCE OVER THE LONGER TERM THE EFFECT OF INSTITUTING CURRENCY BASKET WOULD BE TO RAISE COSTS FOR THE MAJOR COMPETITORS OF THE U.S. SUCH AS WEST GERMANY AND JAPAN. INTRODUCTION OF THE CURRENCY BASKET, ALI KHALIFA POSTULATED, WOULD THEREFORE TEND TO STRENGTHEN THE DOLLAR, NOT WEAKEN IT. WHILE IN LONDON HE HAD ASKED A NUMBER OF FOREIGN EXCHANGE EXPERTS AT EUROPEAN BANKS WHAT THE LONG-TERM

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EFFECTS OF MOVE TO CURRENCY BASKET WOULD BE FOR U.S. DOLLAR. RESPONSE WAS ALMOST UNANIMOUS THAT IT WOULD STRENGTHEN DOLLAR, OTHER THINGS BEING EQUAL.

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INFO OCT-01 AF-10 ARA-10 EA-10 EUR-12 NEA-10 ISO-00

IO-13 SOE-02 AID-05 CEA-01 CIAE-00 COME-00

DODE-00 DOE-15 H-01 INR-10 INT-05 L-03 NSAE-00

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FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC PRIORITY 1490

INFO AMEMBASSY ABU DHABI

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USINT BAGHDAD POUCH

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5. BASKET MECHANISM. SHAIKH ALI REFUSED TO BE DRAWN INTO A DISCUSSION OF WHAT KIND OF BASKET MECHANISM ("GENEVA 2," UTAYBA PROPOSAL, MODIFIED SDR, ETC.) MIGHT BE ADOPTED, SAYING THAT THE MECHANISM ITSELF WAS MUCH LESS IMPORTANT THAN THE FUNDAMENTAL QUESTION OF WHETHER MOVE TO ANY BASKET OF CURRENCIES WAS ADVISABLE. BASIC QUESTION WAS SUBJECT, HE REPEATED, ABOUT WHICH HE R HAD NOT YET MADE UP HIS MIND.

6. COMMENT: MINISTER WAS BEING COY WITH US, BUT IT IS PROBABLY THE CASE THAT HE HAS NOT YET INCLUDED, IN HIS OWN MIND, THAT TYING OIL PRICES TO CURRENCY BASKET WILL BE GOOD FOR KUWAIT AND OPEC: SINCE MOST OF KUWAIT'S \$30 PLUS BILLION IN NET FOREIGN ASSETS ARE DOLLAR DENOMINATED, SHAIKH ALI, THE FORMER FINANCE MINISTER UNDER-SECRETARY, IS OBVIOUSLY CONCERNED ABOUT WHAT EFFECT MOVING TO A CURRENCY BASKET MIGHT HAVE ON THE DOLLAR. HE MAY WELL ALSO NOT YET FEEL SECURE ABOUT PROSPECTS FOR AN OUT-OF-SEASON OPEC MINISTERIAL AT WHICH SAUDIS MIGHT OPPOSE A 5 PERCENT PRICE HIKE. WE WOULD APPRECIATE RECEIVING TEXT OF UNDERSECRETARY SOLOMON'S REMARKS REGARDING TYING OIL PRICE TO CURRENCY BASKET, AS WELL AS MORE DETAILED REPORTS AVAILABLE ON THE PROBABLE ADVANTAGES AND DISADVANTAGKS FOR THE DOLLAR OF AN OIL PRICE/CURRENCY BASKET LINK.
SUTHERLAND

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Message Attributes

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